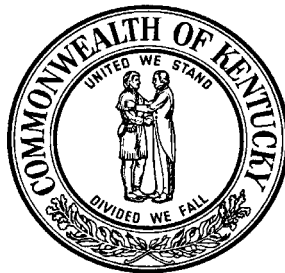


**REPORT OF THE AUDIT OF THE
HOPKINS COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

March 25, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HOPKINS COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

March 25, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Hopkins County Sheriff as of March 25, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$14,428,953 for the districts for 2004 taxes, retaining commissions of \$395,651 to operate the Sheriff's office. The Sheriff distributed taxes of \$14,019,213 to the districts for 2004 Taxes. Taxes of \$57 are due to the districts from the Sheriff and refunds of \$47,351 are due to the Sheriff from the taxing districts.

Report Comment:

- The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Patricia M. Hawkins, Hopkins County Judge/Executive

Honorable Frank Latham, Hopkins County Sheriff

Members of the Hopkins County Fiscal Court

Independent Auditor's Report

We have audited the Hopkins County Sheriff's Settlement - 2004 Taxes as of March 25, 2005. This tax settlement is the responsibility of the Hopkins County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hopkins County Sheriff's taxes charged, credited, and paid as of March 25, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2005, on our consideration of the Hopkins County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Patricia M. Hawkins, Hopkins County Judge/Executive
Honorable Frank Latham, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 15, 2005

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

March 25, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,467,227	\$ 513,398	\$ 7,275,085	\$ 1,588,485
Tangible Personal Property	300,023	116,803	1,084,349	716,385
Intangible Personal Property				292,224
Fire Protection	1,367			
Increases Through Exonerations	1,283	395	5,711	3,568
Franchise Corporation	246,019	72,290	956,837	
Additional Billings	3,168	1,338	16,945	3,892
Oil and Gas Property Taxes	8,994	2,973	44,597	9,737
Bank Franchises	111,996			
Penalties	9,380	3,214	45,759	11,149
Adjusted to Sheriff's Receipt	7,147	1,928	25,685	12,877
Gross Chargeable to Sheriff	<u>\$ 2,156,604</u>	<u>\$ 712,339</u>	<u>\$ 9,454,968</u>	<u>\$ 2,638,317</u>
<u>Credits</u>				
Exonerations	\$ 9,010	\$ 2,948	\$ 43,976	\$ 10,033
Discounts	27,953	9,335	120,775	39,461
Delinquents:				
Real Estate	34,334	11,853	170,217	37,173
Tangible Personal Property	1,425	386	5,149	3,024
Intangible Personal Property				358
Uncollected Franchise	116	32	422	
Credit - late additional bills	715	237	3,562	781
Total Credits	<u>\$ 73,553</u>	<u>\$ 24,791</u>	<u>\$ 344,101</u>	<u>\$ 90,830</u>
Taxes Collected	\$ 2,083,051	\$ 687,548	\$ 9,110,867	\$ 2,547,487
Less: Commissions *	<u>88,817</u>	<u>28,691</u>	<u>169,587</u>	<u>108,556</u>
Taxes Due	\$ 1,994,234	\$ 658,857	\$ 8,941,280	\$ 2,438,931
Taxes Paid	1,992,674	658,265	8,931,639	2,436,635
Refunds - See Note 7	<u>8,917</u>	<u>2,534</u>	<u>34,978</u>	<u>14,954</u>
Taxes Due District or (Refunds due Sheriff) as of Completion of Fieldwork	<u>\$ (7,357)</u>	<u>\$ (1,942)</u>	<u>\$ (25,337)</u>	<u>\$ (12,658)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

HOPKINS COUNTY
 FRANK LATHAM, SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 March 25, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on		5,291,784
1.87% on		8,796,394
1.62 % on		314,473
1% on		16,303

** Special Taxing Districts:

Health District	\$	(1,168)
Extension District		(813)
Tradewater Watershed District		(18)
Earlington Fire District		<u>57</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(1,942)</u></u>
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HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT

March 25, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2004, the depository institution failed to pledge sufficient collateral to the Sheriff's deposits, and the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$3,703,391 of public funds uninsured and unsecured.

HOPKINS COUNTY
 NOTES TO FINANCIAL STATEMENT
 March 25, 2005
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of November 5, 2004.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	5,000,000
Uncollateralized and uninsured	<u>3,703,391</u>
Total	<u>\$ 8,803,391</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 23, 2004 through March 25, 2005.

Note 4. Interest Income

The Hopkins County Sheriff earned \$4,355 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of December 15, 2005, the Sheriff was due refunds from the school districts for \$139 and \$142 in overpaid interest and the Sheriff owed \$386 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Hopkins County Sheriff collected \$50,846 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Hopkins County Sheriff collected \$5,880 of advertising costs and \$7,665 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
March 25, 2005
(Continued)

Note 7. Refunds Due from Taxing Districts

An error in the tax rate on nine tax bills was discovered during the performance of the audit which had resulted in the over billing of approximately \$46,322 in property taxes. The County Clerk is responsible for preparing the tax bills accurately. The Sheriff is responsible for collecting the taxes. The tax bill error was the result of erroneously programming the tax bill preparation and collection software to charge full tangible personal property tax rates for state and local taxing districts instead of the state rate only of \$.15 per \$100 assessed property value for one class of property. The error was on the class of tangible property designated as Construction in Progress - Manufacturing Machinery. Of the refunds due from districts on the financial statement, the amount (net of discounts) reflected below per district (Table A) is due to the tax rate error. As of March 25, 2005, taxpayers due refunds and the refund amount as a result of the error are reflected in the second table (Table B).

Table A

<u>Taxing District</u>	<u>Refund</u>
State	\$ 12,267
County	6788
County School	21562
Dawson School	2968
Health	1063
Extension	777
	<u>\$ 45,425</u>

Table B

<u>Taxpayers</u>	<u>Refund</u>
Ahlstrom Engineering	\$ 8,324
Autoliv	20,714
Buckhorn	5,500
Gemtron	7,354
Lear Midwest Jet	1,447
Rexam Closures	1,528
Warrior Coal	558
	<u>\$ 45,425</u>

Note 8. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$1,259 in unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of March 24, 2005

The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2004, the depository institution failed to pledge sufficient collateral to the Sheriff's deposits, and the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$3,703,391 of public funds uninsured and unsecured.

Sheriff's Response:

As a result of having the Sheriff's bank accounts with US Bank for several years, it was decided to move the accounts to another institution. After having several meetings with the President and Vice-Presidents of Community First Bank and having been assured that their Institution could meet the pledge requirements, the accounts were moved to the local bank, and opened August 31, 2004. The Sheriff entered into a written agreement with Community First Bank, and subsequently, expected the Institution to uphold the agreement. [See next page for continuation of response.]

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
COMMENT AND RECOMMENDATION
As of March 24, 2005
(Continued)

[The following letter from Community First Bank was submitted by Sheriff Frank Latham to be included with his response.]



December 7, 2005

Frank Latham, Sheriff
Hopkins County Sheriff's Department
25 East Center Street
Madisonville, KY 42431

Mr. Latham:

On August 31, 2004 the Hopkins County Sheriff's Department opened three separate money market accounts with Community First Bank. The three accounts were labeled "Sheriff's Fee Account," "Property Tax Account," and "Franchise Account." Because the money deposited into these accounts was public funds, our bank was required to pledge collateral for all balances above the \$100,000 limit insured by the FDIC.

As stated on the October 10, 2005 questionnaire from your auditors, the amount of the bank's securities pledged as collateral for your balances was less than the amount of your deposits on November 5, 2004.

The year 2004 was our first year to provide these accounts for the Sheriff's Department, and the dramatic fluctuations in deposits from day to day caught us off guard. We anticipated large deposits for these accounts based upon information provided to us, but the dollar amount of these deposits came much more quickly than we had anticipated.

In reviewing my notes during this time period, we began our efforts to pledge collateral on October 22, 2004. At that time, all of the bank's existing securities were already pledged for another entity, so we were left with the alternative of purchasing certificates of deposit from the Federal Home Loan Bank of Cincinnati (FHLB) to serve as collateral.

In attempting to obtain the necessary CDs, we discovered that we did not have the required documentation in place with the FHLB to immediately purchase CDs and have them pledged. We were required to go through a series of steps to put that documentation in place. These stages of documentation took several days and it wasn't

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
COMMENT AND RECOMMENDATION
As of March 24, 2005
(Continued)

until November 5, 2005 that we were able to purchase and pledge \$5 million in FHLB CDs on behalf of the Hopkins County Sheriff's Department.

Ultimately, we should have been prepared to purchase and/or pledge the necessary collateral before it was even needed. In this regard, we fell short of our obligation to the Sheriff's Department and to the people of Hopkins County.

I respectfully apologize for the position of risk that we exposed all parties to in this serious oversight. Fortunately the issue was eventually corrected, however, it cannot be overlooked that a mistake was made. If I can answer any questions regarding this matter, please contact me at 270-326-3546. My office is located at 2420 North Main Street if a personal visit is required, or I can meet with you in your office at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Michael D. Wortham".

Michael D. Wortham
Vice President

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Patricia M. Hawkins, Hopkins County Judge/Executive
Honorable Frank Latham, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Hopkins County Sheriff's Settlement - 2004 Taxes as of March 25, 2005, and have issued our report thereon dated December 15, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hopkins County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hopkins County Sheriff's Settlement - 2004 Taxes as of March 25, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and is discussed in the accompanying comment and recommendation.

- The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 15, 2005

